DANCAP RESOURCES INC.

1996

ANNUAL REPORT

CORPORATE PROFILE

Dancap Resources Inc. is a junior oil and gas exploration, development and production company based in Calgary, Alberta. The Company was incorporated under the provisions of the Business Corporations Act (Alberta) on April 8, 1994 and completed its first public offering in December of the same year. Dancap shares are traded on the Alberta Stock Exchange (ASE) under the symbol "DCR". Dancap's mission is to maximize shareholder value by engaging in oil and gas exploration, exploitation, and development activities which demonstrate a prudent combination of risk and economic reward.

ANNUAL GENERAL MEETING

The scheduling of the Annual General Meeting of Dancap Resources Inc. has been postponed pending the outcome of the proposed merger of Dancap with Storm Energy Corporation. See details in the report.

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ABBREVIATIONS USED IN THIS REPORT

APO	After Pay Out
bbls	Barrels
bbls/d	Barrels Per Day
boe	Barrels of Oil Equivalent
boe/d	Barrels of Oil Equivalent Per Day
BPO	Before Pay Out
mcf	Thousands of Cubic Feet
mcf/d	Thousands of Cubic Feet Per Day
mmcf	Millions of Cubic Feet
mmcf/d	Millions of Cubic Feet Per Day
W.I.	Working Interest

REPORT TO SHAREHOLDERS

I am pleased to present the 1996 consolidated results for Dancap Resources Inc. The past year was one of significant growth for Dancap as the company achieved an average production rate of 145 boe/d as compared to 45 boe/d in 1995. This growth resulted from a major acquisition of producing assets, the drilling of four exploitation wells, and rate increases due to waterflood response. As the result of these activities, Dancap's year-end booked reserves were increased by 83% to 411,000 boe from the 1995 level of 224,000 boe. Net capital expenditures of approximately $1.15 million resulted in the addition of 219,463 boe which translates into an average finding cost of $5.22/boe.

Gross revenues from oil and gas production increased by 320% to $1,295,343 from $308,051 in the previous year. Cash flow rose to $609,289 from $102,658, a jump of 496% over the 1995 figure. Net income totalled $292,224 in 1996 compared to a loss of $12,557 in 1995. Along with more production, higher commodity prices played a significant role in the increases noted for 1996. The average yearly sale price for oil was $26.18/bbl while gas averaged $1.38/mcf. After royalties and operating costs, the average netback for all production was $14.45/boe with oil netbacks of $16.17/bbl and gas netting $0.63/mcf.

During 1996, a total of 4,704,333 common shares were issued from treasury for a total cash consideration of $1,161,084. Included in this total were the exercise of 100,000 agent's options at $0.10 per share and the exercise of 4,604,333 warrants at $0.25 each. These warrants were issued as part of the private placement of units approved by Dancap shareholders in 1995. The proceeds received from the exercise of the options and warrants were used to fund capital projects and to reduce debt.

Looking ahead, the company anticipates another year of steady growth in 1997. Assuming that the proposed merger with Storm Energy Corporation is finalized, the company will be in a strong position to pursue further exploitation, development, and exploration activities in a number of key areas in Alberta. Further details on the planned activities for the year will be presented at the next annual meeting to be held on or before September 30, 1997.

Submitted on behalf of the Board of Directors of Dancap Resources Inc.

D.J. Tessari

Daniel J. Tessari
President

April 30, 1997

YEAR-END SUMMARY

	1996	1995	% Change
Production			
Total Oil - bbl	**46,636**	13,582	+243
Total Gas - mmcf	**63**	29	+117
Total - boe	**52,936**	16,482	+221
Average Daily Oil - bbl	**128**	37	+246
Average Daily Gas - mcf	**173**	80	+116
Average Daily - boe	**145**	45	+222
Prices			
Average Oil - bbl	**$26.18**	$20.22	+29
Average Gas - mcf	**$1.38**	$1.14	+21
Average- boe	**$24.46**	$18.69	+31
Financial			
Oil and Gas Revenue	**$1,295,343**	$308,051	+320
Cash Flow	**$609,289**	$102,658	+496
Cash Flow per share	**$0.053**	$0.015	+253
Earnings	**$292,224**	($12,557)	na
Earnings per share	**$0.025**	–	na
Costs Per Boe			
Royalties	**$3.98**	$2.99	+33
Operating Costs	**$6.03**	$6.58	-8
General and Administrative	**$3.16**	$3.64	-13
Depletion, Depreciation, Amortization	**$5.89**	$6.87	-14
Shares Outstanding			
Yearly weighted average	11,498,888	6,511,508	+77
At December 31	13,584,333	8,880,000	+53
Fully Diluted at December 31	14,314,333	9,710,000	+47

OPERATIONAL HIGHLIGHTS

GRAND FORKS, ALBERTA

Most of Dancap's 1996 capital expenditures occurred in the Grand Forks region. Long Reef Resources Inc., which is 50% owned by Dancap, purchased an additional 25% working interest in properties in which it already had ownership. This brought Dancap's effective working interest in these Grand Forks properties to about 34.4% and added approximately 45 bbls/d to Dancap's production at a cost of $375,000 to Dancap.

The company proceeded to participate in the drilling of three wells on these lands. All of the wells were cased and completed for production. The first well at 1B-36-12-14W4M was completed as a Sawtooth oil producer and reached a maximum rate of 190 bbls/d. The well is currently producing at a rate of 120 bbls/d and had produced 18,700 barrels of oil by the end of the year.

The second well drilled was at 2D-36-12-14W4M with the primary target being the Sawtooth formation. This zone produced only water upon completion and was subsequently abandoned. The Glauconite zone, which came in higher than expected, was completed and produced about 1000 barrels of oil before being suspended due to poor inflow. We believe that this zone was damaged while drilling through to the Sawtooth. Several attempts to improve inflow through stimulations have failed. The well still has upside potential if the structural high in the Glauconite zone can be tapped without damaging the zone.

The third well drilled at Grand Forks was at 2A-36-12-14W4M and targeted the bypassed Glauconite zone identified by the well logs at 1B-36. Long Reef operated this well and successfully drilled the zone of interest using nitrogen to ensure underbalanced drilling conditions. The well was completed and initially produced oil at a rate of 95 bbls/d. By the end of the year the oil rate had stabilized at approximately 45 bbls/d.

The Grand Forks property reached a peak production of rate of 550 bbls/d (190 net to Dancap) in October 1996 but exited the year at approximately 315 bbls/d (108 net).

RONCOTT, SASKATCHEWAN

The abandoned well at 11-35-5-25W2M was re-entered and completed as a Bakken oil producer. The existing pipeline for the well to the battery at 9-34-5-25W2M was pressure tested and reactivated. Due to the harsh winter and some bottom hole pump mechanical problems, production from this well has been limited. When the well is producing, the fluid rates are comparable to the wells at 1-34 and 5-35. An accurate water cut has not been determined to date; however, indications are that it should be in the order of 25%.

In conjunction with the re-entry at 11-35, a significant portion of the horizontal section at 16-35 was plugged back and stimulated with an hydraulic fracture. Results from this workover have been slow to materialize as the harsh winter conditions caused pipes to freeze and production was limited. When on production, the fluid rates and water cuts from this well appear to be in the same range as cited above.

The pilot waterflood project at Roncott has performed quite well as the combined production rate at the wells closest to the injector (1-34 and 5-35) has more than doubled since injection began. A steady injection rate of approximately 100 bbls/d is being maintained which provides a voidage replacement ratio of more than 3:1 in the drainage unit around the injector.

OTHER ACTIVITIES

The single well at Chin Coulee in which Long Reef had a 20% interest was sold effective October 1, 1996 for a price of $120,000. At a net production rate of 5 bbls/d, the sale price equated to $24,000 per bbls/d or four times annual cashflow.

At the end of 1996, Long Reef attempted to complete the capped gas well at Bellis 12-8-61-14W4M. Two potential gas zones were perforated and tested. Non-commercial gas flow rates were achieved during the flow test and the well was abandoned. Total costs for the completion and abandonment were approximately $55,000 ($27,500 net to Dancap).

SUBSEQUENT EVENTS

The Proposed Merger Between Dancap Resources Inc. and Storm Energy Corporation

Dancap Resources Inc. ("Dancap") and Storm Energy Corporation ("Storm") have entered into an agreement whereby Dancap has made an offer to purchase all of the issued and outstanding shares of Storm by way of a take-over bid. Storm shareholders will receive 2.13725 common shares of Dancap for every one (1) common share and 2.13725 stock options of Dancap for every one (1) stock option of Storm tendered pursuant to the take-over bid offer. The transaction would amount to a "reverse take-over" of Dancap by Storm shareholders as the Dancap common shares held by the current Dancap shareholders would constitute less than 22% of the Dancap common shares issued and outstanding after the completion of the transaction.

Storm is an Alberta distributing corporation that produces oil and natural gas in central and southern Alberta. The company's current production is approximately 650 barrels of oil equivalent per day with the majority of production being oil. Storm has also entered into an agreement to purchase certain oil and gas assets in Alberta for an aggregate purchase price of $24,000,000. Current production from these assets proposed to be acquired is approximately 1500 barrels of oil per day net to Storm. The acquisition is being financed through a combination of equity and bank debt, both of which are already in place.

Conclusion of the proposed transactions is subject to regulatory and board of directors approval, due diligence, rights of first refusal, and the written consent of the majority of the shareholders of Dancap. Subject to meeting all conditions, it is anticipated that the acquisition will be concluded on or before May 30,1997. Once the transactions are concluded, it is intended that the officers of Dancap will be: D. Keith MacDonald - President and Chief Executive Officer; Stephen N. Ewaskiw - Vice -President, Exploration; David K. Christensen - Vice-President, Engineering; Ron Hozjan - Vice -President, Finance and Chief Financial Officer; and John Brussa - Secretary. In addition, the members of the new interim board of directors for Dancap will be: John Brussa, Stephen Ewaskiw, D. Keith MacDonald, A. Gordon Stollery, Daniel J. Tessari, and Robert M. Tessari.

The management of Dancap and Storm believe that the core oil and gas assets of each company are complementary. The existing assets combined with those noted in the acquisition above will make for a much stronger corporation with initial daily production of approximately 2300 boe.

AUDITORS' REPORT

TO THE SHAREHOLDERS OF DANCAP RESOURCES INC.:

We have audited the consolidated balance sheets of Dancap Resources Inc. as at December 31, 1996 and 1995, and the consolidated statements of income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995, and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Calgary, Alberta March 11, 1997

Barr Shelley Stuart
CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31

	1996	1995
ASSETS		
CURRENT		
Cash	$ 627,487	$ 22,904
Accounts receivable	346,367	127,952
	973,854	150,856
PETROLEUM AND NATURAL GAS ASSETS (Note 3)	2,296,477	1,462,515
DEFERRED FINANCING COSTS	12,624	10,274
	$ 3,282,955	$1,623,645
LIABILITIES		
CURRENT		
Accounts payable	$ 197,349	$ 89,424
LONG TERM DEBT(Note 4)	700,000	600,000
	897,349	689,424
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	2,118,255	959,094
RETAINED EARNINGS (DEFICIT)	267,351	(24,873)
	2,385,606	934,221
	$ 3,282,955	$1,623,645

Approved On Behalf Of The Board:

DJ. Tessari

Daniel J. Tessari
Director

David K. Christensen
Director

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31

	1996	1995
REVENUE		
Oil and gas production	$1,295,343	$308,051
Royalties	210,876	49,273
	1,084,467	258,778
Operating costs	319,217	108,445
	765,250	150,333
EXPENSES		
General and administrative	117,490	51,091
Interest	49,652	8,920
Depletion and amortization	311,704	113,205
	478,846	173,216
INCOME (LOSS) BEFORE THE FOLLOWING	286,404	(22,883)
Interest income	5,820	10,326
NET INCOME (LOSS) FOR THE YEAR	292,224	(12,557)
DEFICIT AT BEGINNING OF YEAR	(24,873)	(12,316)
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	$ 267,351	$ (24,873)
INCOME (LOSS) PER SHARE (Note 2)	$ 0.025	$ (0.002)

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED DECEMBER 31

	1996	1995
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income (loss) for the year	$ 292,224	$ (12,557)
Add items not involving a current cash outlay		
Depletion and amortization	311,704	113,205
Amortization of deferred financing costs	5,361	2,010
	609,289	102,658
Changes in working capital balances related to operating activities		
Accounts receivable	(218,415)	(124,559)
Funds held in trust	–	85,000
Accounts payable	107,925	83,933
	498,799	147,032
FINANCING ACTIVITIES		
Proceeds from long term debt	100,000	600,000
Deferred financing costs	(7,700)	(12,284)
Issuance of capital stock	1,161,084	723,000
Share issuance costs	(1,923)	(20,386)
	1,251,461	1,290,330
INVESTING ACTIVITIES		
Acquisition of Long Reef Resources Inc.	–	(462,342)
Purchase of petroleum and natural gas assets	(1,211,690)	(1,165,970)
Proceeds on sale of petroleum and natural gas assets	66,013	52,592
	(1,145,677)	(1,575,720)
INCREASE (DECREASE) IN CASH	604,583	(138,358)
CASH AT BEGINNING OF YEAR	22,904	161,262
CASH AT END OF YEAR	$ 627,487	$ 22,904

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1996

NOTE 1 BASIS OF CONSOLIDATION

These financial statements include the operations of the Company and the results of the proportionate consolidation of its 50% interest in Long Reef Resources Inc. ("Long Reef").

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

a) i) Petroleum and Natural Gas Assets

The Company follows the full cost method of accounting for petroleum and natural gas properties and equipment whereby all costs, net of government incentives, relating to the exploration for and development of oil and gas reserves, are capitalized. Such costs include lease acquisition costs, geological and geophysical expenditures, costs of drilling both productive and non-productive wells, related plant and production equipment costs and overhead charges.

Proceeds on disposal of properties are normally applied as a reduction of the capitalized costs without recognition of a gain or loss except where such a disposal would alter the depletion and amortization rate by 20% or more.

The Company carries its petroleum and natural gas properties at the lower of the capitalized cost and net recoverable value. Net capitalized cost is calculated as the net book value of the related asset less the accumulated provisions for deferred income taxes and site restoration costs, if any. Net recoverable value is limited to the sum of future net revenues from proven properties and the cost of unproved properties, net of provision for impairment, less estimated future financing and administrative expenses and income taxes. Future net revenues are based on prices and costs prevailing at the year end.

ii) Depletion and Amortization

Accumulated costs of petroleum and natural gas properties and equipment, including provision for future development expenditures, are depleted using the unit-of-production method based on an estimate of proven petroleum and natural gas reserves, as prepared by independent petroleum engineers.

Accumulated costs are reviewed annually for impairment in value. Additional depletion is provided if the aggregate net book value of petroleum and natural gas assets exceeds estimated future production revenues.

b) Future Site Restoration and Abandonment Costs

The estimated costs for future site restoration and abandonment are reviewed on an annual basis. The estimates are based upon regulatory and industry standards in effect at year end. These costs are compared to the estimates of salvage values and sales proceeds and the net annual charge, if any, is recorded as a provision for site restoration. The actual site restoration costs would be charged to the provision as incurred.

No provision has been recorded for the current year as the estimates of salvage values and sales proceeds are in excess of the estimated costs.

c) Deferred Financing Costs

Deferred financing costs have been recorded at cost and are being amortized on a straight line basis over five years.

d) Joint Venture Operations

Substantially all of the Company's exploration and production activities are conducted jointly with other entities. Accordingly these financial statements reflect only the Company's proportionate interest in such activities.

e) Measurement Uncertainty

The amounts recorded for depletion and amortization of petroleum and natural gas properties and the provision for future abandonment and site restoration costs are based on estimates. The ceiling test is based on such factors as estimated proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the impact on the financial statements of future periods could be material.

f) Per Share Information

Income (loss) per share has been calculated based on the weighted average number of shares outstanding during the year of 11,498,888 (1995 - 6,511,508). Fully diluted earnings per share, as affected by stock options is $.024. For 1995 the effect of the options was anti-dilutive.

NOTE 3 PETROLEUM AND NATURAL GAS PROPERTIES

	1996			1995
	Cost	Accumulated Depletion and Amortization	Net Book Value	Net Book Value
Petroleum and natural gas properties	$ 2,737,385	440,908	2,296,477	1,462,515

NOTE 4 LONG TERM DEBT

	1996	1995
An oil and gas revolving demand bank loan payable as to interest only at prime plus 1.75% per annum. Security for the indebtedness is provided by a $2 million fixed and floating charge debenture and a general security agreement covering all of the assets of the Company.	$ -	420,000
An oil and gas revolving demand bank loan payable by Long Reef as to interest only at prime plus 1.25% per annum. Security for the indebtedness is provided by a $3 million fixed and floating charge debenture, a general security agreement covering all of the assets of Long Reef and postponements of claim by its shareholders	700,000	180,000
	$ 700,000	600,000

There are no fixed terms of repayment. The loans are expected to be repaid from production revenues and/or proceeds from future share issuances/ therefore no amount has been disclosed as being currently payable.

NOTE 5 CAPITAL STOCK

a) Authorized capital
Unlimited number of common voting shares
Unlimited number of first, second and third preferred shares

b) Issued

Common shares	Number	Consideration
Balance, December 31, 1994	4,000,000	$ 256,480
Issued for cash		
Private placements	4,700,000	705,000
Stock options exercised	180,000	18,000
	8,880,000	979,480
Share issue costs	-	(20,386)
Balance, December 31, 1995	8,880,000	959,094
Issued for cash		
Stock options exercised	100,000	10,000
Warrants exercised	4,604,333	1,151,084
	13,584,333	2,120,178
Share issue costs	-	(1,923)
Balance, December 31, 1996	13,584,333	$ 2,118,255

c) Preferred Shares

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges and conditions attached to the shares of each series.

d) Stock Options

The Company has a stock option plan under which the Board of Directors can grant options to purchase common shares to directors, officers, senior employees and consultants.

The Company has granted stock options on 730,000 common shares as follows:

To	Date	Price Per Share	Number of Shares	Expiration Date
Directors	Apr. 13/94	0.10	320,000	Mar 31/99
Directors	July 8/95	0.15	220,000	July 8/00
Director	Oct. 10/95	0.15	190,000	Oct. 10/00

e) Escrowed Shares

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 2,145,000 common shares issued or obtained in connection with the initial incorporation or secondary market were held in escrow.

The escrowed shares may be released as to one third thereof, on the first anniversary of the completion of the Company's Major Transaction, which was May 3, 1995. At the time of consent for the first release, approval of the second and third releases may be obtained. The balance of escrowed shares at December 31, 1996 was 1,430,004.

NOTE 6 INCOME TAXES

At December 31, 1996, the Company had approximately $2,935,000 (1995-$2,225,000) of tax deductions available to be applied against future years' income for income tax purposes. These deductions, of which $1,900,000 relate to Long Reef, consist of Canadian Development Expenses, Canadian Exploration Expenses, Canadian Oil and Gas Property Expenses and Undepreciated Capital Cost Allowance, all of which are available for carryforward indefinitely.

NOTE 7 RELATED PARTY TRANSACTIONS

The Company has entered into consulting agreements with two companies, the presidents of which are directors of Dancap. The terms of the agreements are as follows:

- the amount paid to both companies is not to exceed $13,000 per month.
- each of the consulting companies will receive a bonus of 5% of the yearly incremental cash flow recorded in Dancap. The base cash flow for the first year was set at $200,000.

One of these companies is also under contract to manage all of the operations of Long Reef. The terms of this agreement are as follows:

- the amount paid is not to exceed $7,800 per month;
- the company will receive a bonus of 10% of the yearly incremental cash flow recorded in Long Reef;
- the company has the option to purchase 10% of Long Reef. The option expires May 1, 1998;
- the contract may be terminated by either party upon thirty days notice.

Under the terms of the agreements, the services provided are charged on an hourly basis, at a rate considered consistent with industry standards.

Pursuant to the above contracts, the Company made payments during the year of $159,290 (1995-$54,895).

NOTE 8 SEGMENTED INFORMATION

The Company's business activity is the exploration for and development and production of oil and gas reserves. All of this activity is conducted in Western Canada and comprises a single business segment.

NOTE 9 SUBSEQUENT EVENTS

Subsequent to the year end the Company announced its intention to merge with Storm Energy Corporation (ìStormî). The proposed agreement results in a reverse take over of the Company by Storm with the holders of common shares of Storm being offered 2.13725 shares of Dancap for each of their common shares of Storm. Conclusion of this agreement is subject to regulatory and board approval, completion of due diligence review, and the written consent of a majority of the shareholders of Dancap.

CORPORATE INFORMATION

Head Office

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Phone: (403) 265-9148
Fax: (403) 266-6209

Directors

Daniel J. Christensen
David K. Christensen
Otto E. Gloeckler
Daniel J. Tessari
Robert M. Tessari

Officers

Daniel J. Tessari, Chairman, President and CEO
Otto E. Gloeckler, Secretary-Treasurer and CFO

Auditors

Barr Shelley Stuart
Suite 600, 808 - 4th Avenue S.W.
Calgary, Alberta T2P 3E8

Bankers

Alberta Treasury Branch
225 - 4th Avenue S.W.
Calgary, Alberta T2P 4K3

Solicitors

Ogilvie and Company
1600 Canada Place, 407 - 2nd Street S.W.
Calgary, Alberta T2P 2Y3

Transfer Agent and Registrar

Montreal Trust
600, 530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Shares Listed

Alberta Stock Exchange (DCR)
CUSIP No. 235903101